City of Hamilton

Golf Course Performance Analysis
Follow-up Study

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The JF Group

Final Report
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Introduction

BACKGROUND

In the fall of 2005, Hamilton City Council directed staff to prepare a Request for Proposals (RFP) in pursuit of a contract arrangement for the management and operation of Hamilton's civic golf courses - Kings Forest and Chedoke (Martin and Beddoe). The RFP advised all proponents that City Council decided that the process would involve an in-house staff submission. The internal bid responded to all of the assessment criteria and provided information about staff's intention to meet the City's long term objectives for its golf operations. Staff's proposal was based on the principle that the City's municipal golf courses are recreational amenities that should be enjoyed by as many people as possible. The content of the proposal addressed staff's intention to:

- maintain a commitment to excellence;
- remain sensitive to the City's past, to golf members and to the public;
- ensure public accessibility;
- ensure equity, regardless of age, race or gender;
- make physical and operational changes to encourage efficiency, act responsibly, maintain service levels and provide additional value; and
- provide self sustaining facilities.

Staff's proposal indicated that the internal submission had received support and participation by CUPE 5167.

On behalf of the City, a Selection Committee evaluated all submissions against a series of preset assessment criteria to determine the proponent that seemed most qualified to fulfill the objectives of the RFP. The process resulted in the selection of the in-house staff bid. As the successful proponent, the staff team was to assume the management and operating responsibilities of the golf courses in time for the 2007 golf season.

GOLF BUSINESS AND OPERATING PLAN

The objectives of the renewed business and operating plan were:

(1) to find efficiencies that would help to reduce operating expenses;

(2) to enhance revenues by increasing user fees and creating new revenue opportunities through the implementation of the capital re-development plan; and

(3) to implement a water conservation strategy – as part of the re-development plan - to be more efficient and to reduce operating costs.

Specifically, the business plan called for the following operational, marketing and pricing adjustments.

- Increase revenue through a new season pass structure and implement a pass pricing strategy that incorporates rate increases exceeding inflation for the first five years of the 10 year plan.

- Increase revenues by increasing greens fee prices to reflect market conditions.

- Improve efficiencies through consolidating the administration functions for the golf courses, reduced labour costs through restructuring of the management positions and changing the staff deployment strategy.

- Increase the amount of play accommodated by each course through adjustments to playing parameters and maintenance schedules.

- Maximize greens fee play by restricting season pass holders' access to 40% of tee times.

- Promote golf to beginners and core golfers and market the value of the municipal facilities through the introduction of a golf newsletter.

- Maximize tournament revenue by concentrating on mid-sized events that can be accommodated in the existing food and beverage facilities.

- Maximize revenue generated by golf cart rentals by "tightening up" the cart strategy.

- Reduce labour costs by downsizing the number of unionized personnel assigned to turf and grounds maintenance.

- Internalize the food and beverage operation.

- Add to the value inherent in each golf course by improving the level of service experienced by each golfer and maintain a quality customer experience each and every time a golfer visits one of the facilities.

CONTEXT TO THIS STUDY

In accordance with its management responsibilities, staff review and report on the golf unit's financial results as part of the City's annual budgeting process. To augment these annual reviews, in 2010 staff commissioned an independent analysis of the provincial and local golf environments as well as the City's operational and financial circumstances with a view to optimizing the unit's performance. The external audit reported that several aspects of staff's original business plan were impeded by a variety of uncontrollable influences. These impediments had a negative effect on revenue production as well as overall operational efficiencies. For example, inclement weather in the first two (full) years of the plan resulted in a significant number of lost golf days that cut almost ¼ million dollars from anticipated greens fee and tournament revenue. Furthermore, storm damage to Kings Forest caused the course to close for an additional ten days impacting revenue by more than $100,000.

Staff's original business plan conformed to Council's overarching directive – which was that golf services remain financially self sustaining. Specifically, golf revenue was to support the operations of the golf courses as well as fund re-investments in golf infrastructure (i.e. turf, bunkers, greens, clubhouses, maintenance buildings, etc.). Net revenue was to be contributed to a capital reserve fund that would be employed to underwrite the cost of facility improvements. Therefore, golf net revenue production would need to remain at sufficient levels for the reserve to adequately fund required capital maintenance and planned infrastructure upgrades. The facility maintenance and infrastructure improvement strategy was a foundational element of the business plan's critically important to support the projected revenue streams because an improved golfer experience would distinguish Hamilton's courses from local competitors thereby attracting more greens fee players. Unfortunately, the aforementioned impacts on golf rounds played at the City's courses coupled with the lingering effects of the global economic crisis eroded net revenue production and restricted the unit's capacity to sufficiently contribute to the golf capital reserve. As a result, clubhouse renovations, practice facilities and course irrigation projects were unfunded and either deferred or abandoned.

A funded improvement project was the construction of two retention ponds adjacent to Red Hill Creek on the King's Forest course - at a cost of $671,000. The ponds capture excess runoff from the creek which has reduced the cost of water by between $100,000 and $120,000 per year. This project typifies the operational and financial benefits associated with a robust capital re-investment strategy.

Staff remain committed to the concept of financial sustainability and are dedicated to maximizing Hamilton's golf unit's ability to meet the needs and expectations of golfers while producing sufficient net revenue to protect and enhance golf infrastructure. In support of this commitment, the City commissioned this study to re-examine the golf environment and to update the analysis of the golf unit's operational and financial performance. The structure and work plan for this update study were developed accordingly.

THE PURPOSE OF THIS REPORT

This study was to build on previous analysis and reports by undertaking an examination of the operating and financial performance of the City's two golf facilities with a view to identifying opportunities to maximize the full potential of Hamilton's golf services. The JF Group has reviewed the operating and financial data provided by staff, examined the operations of other municipal golf course operations, reviewed and analyzed general golf participation trends and performed an analysis of key performance indicators.

The purpose of this report is to provide observations, key findings and recommendations for optimizing golf's contribution to the objectives contemplated by the original golf renewal business plan. Additionally, the study is to provide insight into areas where the golf courses' infrastructure and operating circumstances could be enhanced through creative and/or proactive initiatives: such as developing partnerships with outside interests to augment municipal improvements to the golf facilities or enhancements to the golf experience through the development of supplementary amenities (i.e. practice facilities).

Trends and Issues Influencing Golf Course Performance

GOLF'S FINANCIAL CONTRIBUTION TO THE ECONOMY

In 2009[1] golf accounted for an estimated $11.3 billion of national GDP and $29.4 billion in total gross production (direct, indirect and induced spending impacts). Nationally this included:

- 341,794 jobs;
- $7.6 billion in household income;
- $1.2 billion in property and other indirect taxes; and
- $1.9 billion in income taxes.

Within Ontario, golf accounted for an estimated $4.4 million of national GDP and $11.5 million in total gross production (direct, indirect and induced spending impacts). Provincially this included:

- 123,566 jobs;
- $2.9 million in household income;
- $496.4 million in property and other indirect taxes; and
- $693.5 million in income taxes.

Canadian Tourism and the Role of Golf

- 'Golfing experiences' is the main reason for more than 1 million trips (of one night or more), made by Canadian travelers
- Canadian golfers spend an estimated $1.8 billion annually on golf-related travel within Canada and $1.7 billion on golf related travel outside of Canada
- 2004-2005, 13.6% (3,377,089) of Canadian adults played golf while on an out of town, overnight trip of one or more nights
- Golf is reported as an activity for as many as 1.7% of all international over-night visitors to Canada (461,200 visitors) and is reported as an activity by 1.5% of all US visitors, 1.8% of visitors from Latin America, 2.7% of all European visitors (including Israel), and 4.2% of all visitors from Asia and Pacific

Source: National Allied Golf Associations (Conducted by Strategic Networks Group) "Economic Impact of Golf for Canada: Findings Report" (2009)

DEMAND

Canadian Golf Population and Demographics

According to Canadian Heritage and Statistics Canada's General Social Survey (GSS), golf has remained the most popular sport among Canadians since 1998[2]. Golf participation rates within Canada are amongst the highest globally[3]. Ipsos Reid and the National Allied Golf Association estimate that there are currently between 5.7 million and 6 million Canadian golfers[4] representing approximately 20% of the Canadian population. Of this population:

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1 Strategic Networks Group on behalf of National Allied Golf Associations completed "Economic Impact of Golf for Canada" in 2009. Currently data collection for the 2014 Economic Impact Study is underway.

2 Source: Canadian Heritage "Sport Participation 2010 Research Paper" (2013)

3 Source: National Allied Golf Associations (Conducted by Strategic Networks Group) "Economic Impact of Golf for Canada: Findings Report" (2009)

4 Those who will play at least one round of golf this year.

- 70% are male;
- 62% are post-secondary graduates;
- 26% earn $50,000-$75,000 and 42% earn more than $75,0000;
- Professions largely include executives, professionals, management, sales & service, trades and retired; and
- Represent very little ethnic diversity.

Of the approximate 15.4 million Canadians who know how to golf but currently do not play, 12% are very interested in the game, while another 3% have plans to participate within the next 3-5 years.

Nearly 40% of today's Canadian adult golfers took up the sport between the ages of 6-17. The National Allied Golf Associations infers that there has been a decline in youth (ages 6-17) golf participation based on the number of Canadian adult golfers with a youth that plays.

PLAYING BEHAVIOUR

The Strategic Network Group of Canada estimates that the number of rounds played in 2008 (70 million) declined by 10% from prior years. Further estimates for 2010 showed another 10% decline from prior years[5]. This decline in golf is not unique to the sport, where for years overall Canadian sport participation has been in decline[6]. However, among the population of Canadian golfers, the number of people entering the game equals the number of people leaving the game[7] – indicating that the decline in demand is a result of lower frequency of play rates. The proportion of Canadian golfers playing fewer rounds (38%) outnumbered those playing more rounds (14%). Golfers can be categorized into 4 general groups:

Exhibit 1: Golfer Categorization by Frequency of Play

Category	Number of Rounds Played Annually	Number of Golfers	% 0f Total Golfers	% of Annual Rounds
Avid	26+	684,000	12%	48%
Frequent	9-25	798,000	14%	24%
Occasional	4-8	2,052,000	36%	21%
Infrequent	1-3	2,166,000	38%	8%

Source: Source: National Allied Golf Associations (Conducted by NAVICOM) "Canadian Golf Consumer Behaviour Study: Findings Report" (2012)

5 Source: National Allied Golf Associations (Conducted by Strategic Networks Group) "Economic Impact of Golf for Canada: Findings Report" (2009) Conducted by Strategic Networks Group for the National Allied Golf Associations and Niagara Parks Commission Golf Operational Review Internal Audit Report No. 2012-04 (2013)

6 Sport' is defined by Sport Canada as an activity that involves two or more participants for the purpose of competition. Despite decline in sport participation, Canadians are increasingly engaged in physical activity.

7 Source: National Allied Golf Associations (Conducted by NAVICOM) "Canadian Golf Consumer Behaviour Study: Findings Report" (2012)

As illustrated in Exhibit 1, slightly more than one in four of Canadian golfers are considered avid or frequent golfers – this group of devoted golfers is often referenced as "core golfers". Most often these enthusiasts tend to play at private golf clubs or semi-private courses offering memberships or season passes. As has been the case for the past decade, the vast majority of Canadian golf rounds are played by core golfers – who play 70% of all annual rounds. Nearly half of core golfers are 50 years of age or older – over 32% of this group of players are men over 50. Core golfers are also relatively affluent – one in four earns more than the $75,000 per year. On average, these enthusiastic golfers play about 44 times per year with the balance of the core golfing group playing an average of 28 times per year. In contrast, occasional and infrequent golfers play an average of three times per year. Occasional golfers tend to be younger and less affluent – 75% of this group is 49 years of age and under and earns less than $75,000 per year.

Evidence suggests that approximately 6.5% of golfers leave private and semi-private clubs annually, representing a growth opportunity for public golf courses. Currently 16% of golfers are members of a club, while 84% frequent courses offering green fee play opportunities[8].

Golf experience value judgments are almost always linked to customer service issues such as the effectiveness and "fairness" of the course's booking system, treatment upon arrival at the course (convenient bag drop area, amiable and attentive reception by pro shop staff, etc.), speed of play (4½ hours maximum), courteous and helpful "player assistance representatives" to resolve on-course issues, availability of concession cart, etc. To survive in a highly competitive market, the top performing facilities develop and implement aggressive service delivery strategies to ensure an uncompromised golf experience is enjoyed by all course patrons.

FACTORS CONSTRAINING GOLF PARTICIPATION

The two largest factors impacting golf participation include time and money. In 2008 following the global financial crisis, the golf bubble burst. Participation in leisure pursuits suffered because individuals became increasingly concerned about personal finances at the same time as they experienced a decline in leisure time (due to an increase in working or commuting hours plus elevated personal responsibilities – such as family commitments). As a result, individuals are likely to be less inclined to participate in slow moving games such as golf - requiring 4 to 5 hours per round. In the past, golf clubhouses experienced significant and sustained pre and post round traffic – especially on weekends, whereas today golfers on

[8] Source: National Allied Golf Associations (Conducted by NAVICOM) "Canadian Golf Consumer Behaviour Study: Findings Report" (2012)

average spend no more than one hour at the clubhouse[9]. Furthermore corporations have adopted more conservative spending policies, where corporate expense accounts are increasingly monitored. In light of Revenue Canada not recognizing golf expenses as a tax deductible expense, golf memberships are more difficult to justify as an employee benefit. Other factors related to time and money that act as barriers to golf participation include:

- the perception that golf is a sport for the wealthy, elite and aging population;
- participation in other leisure activities; and
- family responsibilities[10].

SUPPLY

Throughout Canada, the golf sector is over-saturated - i.e. there is an over-supply of golf courses in relation to demand. According to the Strategic Networks Group, Ontario has an estimated 2.32 million resident golfers (representing about 20% of the Provincial population – mirroring the national participation rate) and over 848 golf course facilities[11]. While this facility supply translates into a ratio of 2,735 Ontario based golfers per course, 74% of these players golf eight or fewer rounds per year. Assuming that the vast majority of avid and frequent golfers play at private facilities and that the remaining greens fees or seasons-pass golfers play (on average) 4 to 6 rounds per year, the total number of available round equals about 38% of the number of rounds that could be reasonably accommodated by the non-private golf courses in the province. As a result of this over-supply situation, golf courses are increasingly facing declining revenues (caused by fewer golfers and deep price discounting to appeal to an increasingly cost conscious consumer) deepening operating losses and diminishing capital replacement and maintenance standards province wide[12].

DECLINING REVENUES

In 2009, total direct sales resulting from Ontario's golf industry was estimated at $4,992.6 million of which $1,655.9 million was generated by golf courses and associated facilities[13]. Research from PKF Consulting indicates a 10% decline in private club membership over the last five years throughout North America[14]. As a result, golf course facilities are increasingly

9 Source: Niagara Parks Commission Golf Operational Review Internal Audit Report No. 2012-04 (2013)

10 Source: Niagara Parks Commission Golf Operational Review Internal Audit Report No. 2012-04 (2013, PKF Consulting Golf Course Sector Update (2014) and National Allied Golf Associations (Conducted by NAVICOM) "Canadian Golf Consumer Behaviour Study: Findings Report" (2012)

11 Source: "Economic Impact of Golf for Canada: Findings Report" (2009) Conducted by Strategic Networks Group for the National Allied Golf Associations

12 Source: Niagara Parks Commission Golf Operational Review Internal Audit Report No. 2012-04 (2013)

13 Source: National Allied Golf Associations (Conducted by Strategic Networks Group) "Economic Impact of Golf for Canada: Findings Report"(2009)

14 Source: PKF Consulting Golf Course Sector Update (2014)

offering pricing mechanisms that provide greater flexibility and added value, such as season passes, discounted greens fees and value added packages providing golf experiences to other golf facilities and service providers. The issue of declining revenues is amplified for publicly owned golf facilities (such as courses owned by municipalities or parks commissions) as in general these facilities try to remain financially accessible and therefore offer reasonably priced greens fees or season passes[15].

Emerging trends related to golf course facilities' revenues include the following.

- The average entrance fee for top-tier private clubs is $38,934, representing non-equity initiation fees at most clubs (anticipated to remain constant for at least the next three years).
- The majority of clubs have never analyzed funding requirements to set initiation fees (based on average member turnover and capital funds) irrespective of the climate of the market.
- Average greens fee rates in Canada (not including cart fee) at 18-hole golf facilities is $43.92 for weekdays and $45.25 during weekends.
- Average cart fee rates in Canada is $27 (18-holes) and $16 (9-holes).
- A small proportion of clubs require the purchase of an equity certificate (trading at an average price of $6,717) to join. A majority of these clubs also charge an initiation fee;
- Average initiation fees and annual dues nationally are $7,500 and $2,125 respectively.
- In general, wait lists no longer exist or are generally shrinking at most private clubs. A small proportion (5%) of clubs have a growing wait list.
- Most clubs now offer a financing option to intermediates and/or juniors to amortize entrance fees over a number of years. Most clubs either allow or would be open to allowing intermediates to sponsor full members. These fee adjustments were largely expressed as contributing to club success[16].

Results from National Allied Golf Associations' "Canadian Golf Consumer Behaviour Study" (2012) highlight that golf consumer spending has generally remained flat or decreased, as highlighted in Exhibit 2.

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[15] Source: Global Golf Advisors "2013 Canadian Private Club Symposium: Post Symposium Survey Results" (2013) and Tyandaga Municipal Golf Course Burlington Ontario, Phase One Alternative Business Models Study (2008)
16 Source: Smith. C., *Niagara Falls Review "Keeping Niagara's Greens in the Black" (2013)*

Exhibit 2: Golf Consumer Spending

Area of Spend	% Spend Increased	% Stayed the Same	% Spend Decreased	% Change
Greens Fees	25	60	15	+10
Club Membership Dues	14	68	18	-4
Golf Equipment	19	62	19	-
Golf Apparel	18	64	18	-
Golf Travel and/or Vacations	14	64	22	-8
Golf Lessons	12	64	24	-12
Golf Accessories	17	64	19	+2

Source: National Allied Golf Associations (Conducted by NAVICOM) "Canadian Golf Consumer Behaviour Study: Findings Report" (2012)

In addition to declining revenues, golf course facilities are increasingly facing rising operating costs. According to PKF Consulting, maintenance costs are the single greatest expense for golf courses. In particular these increasing costs can be largely allocated to turf maintenance and general labour costs. In 2009, operating expenses per hole ranged from $93,000 to $132,000.

Emerging trends related to golf course operating costs include the following:

- The majority of golf course facilities own all of their equipment, where public facilities tend to have a random assortment of owned and leased equipment.
- Average annual operational expenditures is $550,000.
- 9- hole private and municipal facilities employ an average of 9 staff, while 18-hole facilities average 31 staff (with numbers varying depending on season).
- On average greens maintenance for an 18-hole golf course in Canada is $450,000.
- Most public courses do not employ full-time equipment technicians, whereas 73% of respondents (private, semi-private public courses) have a full-time technician.

- A majority of golf course facilities spend between $10,000 and $40,000 annually on equipment repairs and maintenance, with 5% spending more than $60,000[17].

DIMINISHING CAPITAL REPLACEMENT AND MAINTENANCE STANDARDS

Although providing a quality golf experience - such as top quality turf, well kept bunkers and first class amenities – is critical to attracting and retaining golfers, capital investments or re-investment projects are increasingly being added to a growing list of deferred maintenance items. According to a Global Golf Advisors' survey, only half of respondents have an up-to-date capital reserve study. Furthermore only half of respondents have an allocated cash reserve on their balance sheets. In general, capital funding contributions come from annual charges or a reserve fund for capital maintenance[18]. Annual capital expenditures for an 18-hole golf course facility averaged $250,000[19].

IMPLICATIONS AND BEST PRACTICE LESSONS

As a result of the realities facing golf course facilities, the industry is deemed to be at a pivotal point in its evolution. According to National Allied Golf Associations[20], "the game today is both vulnerable and on the cusp of greatness", where there is an opportunity to grow the sport through greater golfer engagement (increasing the base of avid and frequent golfers). New coordinated strategies are therefore required to deliver golf products and services that provide a value-added experience reflective of changing consumer tastes while generating operating effectiveness and efficiencies. Golf management best practice lessons related to marketing, organizational structure and strategic planning, golf course maintenance and design, membership protocol and programming provide examples of how the Canadian golf industry can sustain and grow the game.

Exhibit 3: Golf Management Best Practice Lessons

Theme	Best Practice Lessons
Membership Protocol	▪ Most clubs have a progressive disciplinary policy enforced by the General Manager, Board of Directors, Disciplinary Committee, Heritage Committee and Club Captain. ▪ Restricted-use guidelines are weaning, where denim, cellular phones and other technological devices are increasingly becoming accepted.

17 Source: Global Golf Advisors "2013 Canadian Private Club Symposium: Post Symposium Survey Results" (2013) and Tyandaga Municipal Golf Course Burlington Ontario, Phase One Alternative Business Models Study (2008)
18 Source: Global Golf Advisors "2013 Canadian Private Club Symposium: Post Symposium Survey Results" (2013)
19 Source: Tyandaga Municipal Golf Course Burlington Ontario, Phase One Alternative Business Models Study (2008)
20 Source: Source: National Allied Golf Associations (Conducted by NAVICOM) "Canadian Golf Consumer Behaviour Study: Executive Report" (2012)

Theme	Best Practice Lessons
	▪
Marketing	▪ Important to market the game as a game for life (inclusive of all age groups). ▪ Increasing usage of 'grow the game' initiatives to introduce new players to the game. ▪ Referrals through existing members is generally considered to be the most effective marketing method. ▪ Innovative member events have largely been expressed as effective in retaining members. ▪ Websites, e-newsletters and newspaper advertisements are considered to be the most effective media for marketing private clubs, while social media marketing is considered to be the least effective.
Organizational Structure and Strategic Planning	▪ Top-tier clubs regularly update their strategic plans (on average every 2.7 years) where a number of clubs indicating that strategic planning has contributed to their success. ▪ Recognize the importance of women on club boards. Although women continue to be under-represented on private club boards, they play a key role in decision making for new membership. ▪ Improved staff management (better communication, competitive compensation, more recognition) in order to retain quality staff and offset high turnover rates. ▪ Support an environment that encourages innovation organization-wide (important for learning about possible methods to improve operating efficiency).
Programming	▪ Ensure existing and new members feel welcome through customer relations software that familiarizes staff with clients, securing convenient tee times, finding play partners etc. ▪ Support a family-friendly atmosphere. ▪ Introduce integrated golf skills training programs such as group learning, internet lessons and virtual learning. ▪ Host focus groups and surveys to understand what clients would like to add or change to current facilities.
Food and Beverage	▪ Providing multiple mediums through which golfers can access food and beverage offerings: Introduce mobile apps with menu listings and ordering capability. ▪ Capitalizing on the 'local food' trend by adding local produce, wines and beers on the menu. ▪ Tightening menu offerings to reduce cost of sales, particularly during known off-peak times.

Theme	Best Practice Lessons
Golf Course Maintenance and Design	▪ Focus on operating methods that represent a shift back to basics: a sophisticated step-cut triplex unit with digital height adjustment to cut greens, collars and tees with the same unit – reducing equipment profiles, equipment budgets and labor budgets while maintaining conditioning capabilities. ▪ Shortened courses to reduce playing times helps to overcome the time constraint while simultaneously offsetting maintenance costs. ▪ Implement methods to simplify the game for new players include simplified courses, graded courses, beginner times to play and fewer holes. ▪ Adopt environmentally friendly maintenance costs such as restricted watering patterns and planting of low maintenance turf (brown or naturalized areas).

A SUMMARY OF RELEVANT TRENDS AND INFLUENCES

- Over the past decade, the number of Canadians playing golf has remained relatively flat – the number of individuals who have taken up the sport is equivalent to the number of those who have stopped playing.

- The number of annual rounds played per golfer has been in decline for almost 10 years.

- Each year, almost three quarters all golf rounds are played by avid and frequent (core) golfers who represent about 25% of the golfing public. These core golfers most often play at private clubs or golf facilities offering season passes.

- While only 16% of the golfing public are members of private clubs, membership rosters at these clubs are in decline – implying that former members are migrating to less expensive golf experiences.

- Golfers assess the “value of the golf experience” based on the quality of the course (especially the condition of the greens, bunkers and tees), the pace of play, the clubhouse’s amenities and the quality/consistency) of the facility’s customer service including interactions with clubhouse and on-course staff. To be successful in attracting and retaining golfers, courses must to ensure that the standards of these “quality measures” are constantly maintained and commensurate with the price of a round of golf.

- There is a significant <u>over supply</u> of golf courses in Ontario. According to industry analysts, there are more than double the number of public and pay-as-you-play privately owned facilities to accommodate the golfing needs non-club member golfers – and this over-supply issue is especially acute in Southern Ontario.

- The convergence of the golf participation trends (fewer rounds per golfer) and the golf course over-supply situation has resulted in a sharp reduction in greens fee and season pass revenue across the golf sector. In turn, this has lead to dramatic price discounts and other aggressive marketing tactics that have exacerbated the golf revenue decline. Golfers have reacted to this increasingly competitive marketplace by “price shopping”, waiting for last minute deals or making use of on-line golf discounters (e.g. GolfNow.com) which further erodes the levels of greens fee revenue to golf courses.

- To remain financially viable – and in the absence of sustainable golf revenue - course operators have been forced to re-evaluate their cost structures from both an operating and capital perspective. Unfortunately, cost cutting decisions have sometimes led to a reduction in course condition or an erosion of the aforementioned quality measures (e.g. fewer or poorly trained customer service staff) which has resulted in further revenue declines as golfers have migrated to facilities offering superior playing conditions or experiences.

In conclusion, the golf environment in Southern Ontario is far more competitive than ever, which requires course owners and operators to be consistently on top of their game. To remain financially viable, they <u>must now employ</u> leading edge management techniques to ensure they capture a sufficient portion of the market. This includes paying constant attention to the day-to-day operational imperatives – such as consistent high quality customer service – while maintaining a strategic yet financially prudent perspective related to facility maintenance and capital upgrades.

Industry experts suggest that the golf environment is ripe for near term correction which would lead to either business failures or marginal courses becoming targets for re-development. Strategically wise and far-sighted course owners will rise above this turbulence to position themselves to capitalize upon the future state which will undoubtedly be a normalized competitive and economic state of the sector.

Analysis of Hamilton Golf's Performance 2007 - 2014

BACKGROUND

The Golf Course Performance Analysis that was undertaken in 2010 examined all aspects of the City's golf business. In doing so, it looked at the year over year financial and operating results compared to assumptions and projections contained in the original business plan. The analysis also examined revenue and expense items taking into consideration applicable operating metrics pertinent to other similar golf environments.

The 2010 analysis study revealed that staff had successfully deployed cost containment initiatives proposed in the initial business plan. The study's Final Reports stated:

> "Substantial gains have been made in (containing) all expense categories with the exception of labour costs. However, based upon our review of the operations, it appears that the size of the staff complement responsible for golf course and exterior grounds maintenance is appropriate – especially now that the King's Forest turf technician position has been filled. Although it may be possible to make modest day-to-day adjustments to part time labour schedules, it is unlikely that major additional labour savings are possible during the summer months without negatively impacting the golf experience at either one or both facilities".

In view of these findings, the majority of the 2010 Final Report's recommendations related to the development and implementation of initiatives intended to improve revenues. Accordingly, while this follow-up study also examined all aspects of the golf services operations, its main focus was assessing the factors and influences on golf services' ability to produce income.

GREENS FEE ANALYSIS

As illustrated in the trends section of this report, golfer buying preferences coupled with the significant pressures inherent with an over-saturated golf market have caused most golf course owners to competitively price their greens fees and memberships (or seasons pass). To examine Hamilton's golf prices relative to the City's courses' market position, the consultants replicated the fee analysis that was presented in the 2010 study. In doing so, we focused attention on greens fee prices rather than the cost of seasons passes because golfers' interest in pay-as-you-play experiences is eclipsing the more traditional membership type relationship.

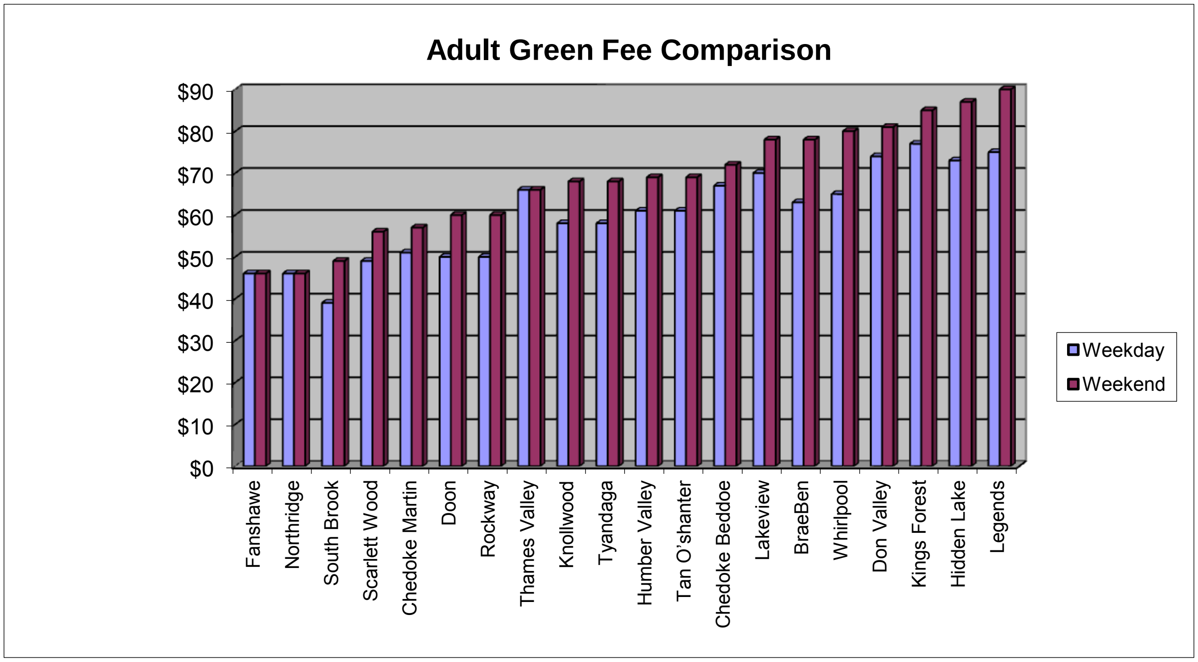
The following table presents the comparative adult and senior rates for an 18-hole round of golf played on weekdays and weekends. The rates are inclusive of the cost of a power cart rental per individual.

Exhibit 4: 2014 Greens Fee Rates - 18-Hole Round of Golf				
	Adult		Senior	
	Weekday	Weekend	Weekday	Weekend
BraeBen	$63	$78	$55	$78
Chedoke Beddoe	$67	$72	$57	$60
Chedoke Martin	$51	$57	$47	$49
Don Valley	$74	$81	$50	$57
Doon	$50	$60	$50	$60
Fanshawe	$46	$46	$46	$46
Hidden Lake	$73	$87	$65	$70
Humber Valley	$61	$69	$45	$49
King’s Forest	$77	$85	$63	$70
Knollwood	$58	$68	$53	$68
Lakeview	$70	$78	$60	$77
Legends	$75	$90	$75	$90
Northridge	$46	$46	$46	$46
Rockway	$50	$60	$50	$60
Scarlett Wood	$49	$56	$39	$44
South Brook	$39	$49	$39	$49
Tan O’shanter	$61	$69	$45	$49
Thames Valley	$66	$66	$66	$66
Tyandaga	$58	$68	$30	$40
Whirlpool	$65	$80	$65	$80
Average	**$60**	**$68**	**$52**	**$60**
Median	**$61**	**$69**	**$50**	**$60**

Including a golf cart, the average 18-hole adult greens fee is $60.00 on weekdays and $68.00 on weekend days for courses included in the analysis. The median adult rate – which reflects the mid-point of all fees with one-half of values being above the median and one-half of fees being below it - are $61.00 on week days and $69.00 on weekends. The median is a useful measure as it is less likely than the average to be distorted by dramatic high or low fees in fees charged by only a few courses.

As illustrated in the preceding table, the City’s Martin course’s greens fee for 18 holes of golf is below the median and average price charged by competitors in the marketplace. The price of the Beddoe course is positioned in the middle of the cost range of the market whereas the King’s Forest facility is among the more expensive golf courses in the area. Based on each of the City’s three facilities’ locations, layouts, reputation, club amenities and golf experience, the consultants suggest that these price points are entirely appropriate given the courses’ market position within the trade area.

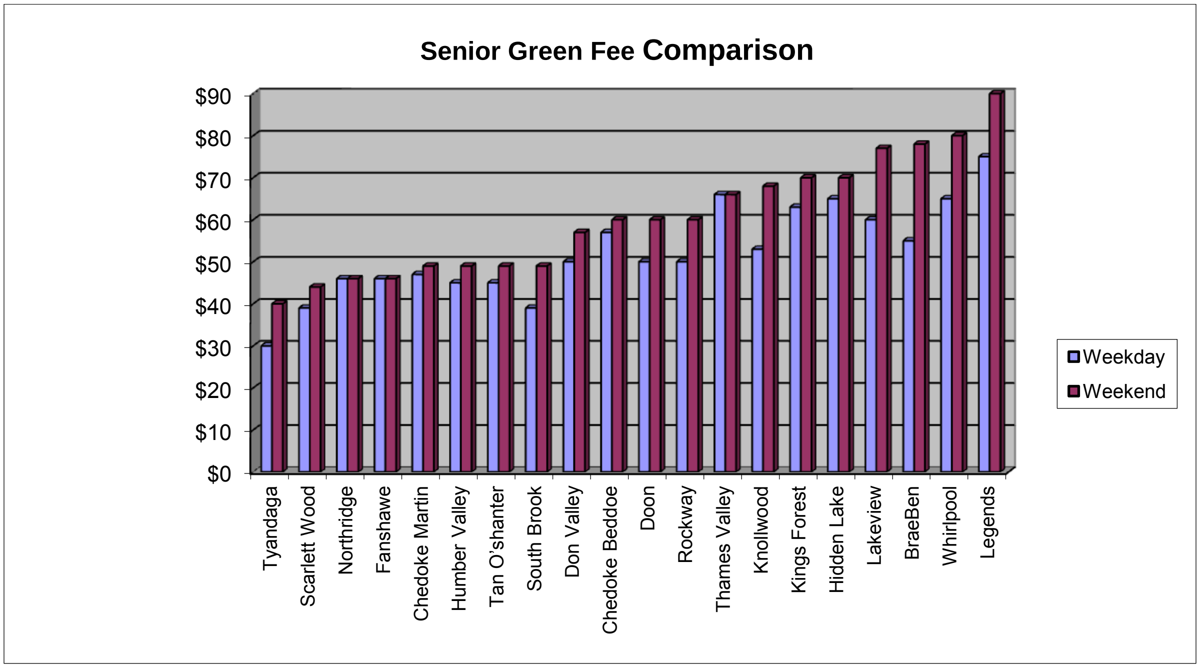
The following chart illustrates the comparative weekday and weekend adult greens fees charged for an 18-hole round by golf courses in the sample.



The weekend premium – which is the incremental price increase to play golf on Fridays, Saturdays, Sundays and holidays – ranges from no increase to 25%. At the City's courses, weekend prices are between 4% and 11% higher than week day greens fees. Hamilton's incremental price increase between weekday and weekend play has been reduced since we performed the same fee analysis in 2010 - when the difference between weekday and weekend prices was between 11% and 14% at the City's facilities.

Sixty per cent (60%) of the golf courses in the general trade area of Hamilton's golf facilities discount prices for senior golfers. Courses that do not offer a blanket senior price normally provide special packages that may be appealing to seniors – i.e. golf and ride packages, play a round with a friend special, etc. In other cases, courses provide senior discounts during the week but not on weekends. Our research has revealed that there are 10% fewer facilities that offer senior discounts compared to the analysis that was performed in 2010 – when 71% of golf courses offered a senior rates.

For the courses that offer senior rates, the price reduction ranges from 8% to 48% discounts compared to the same fee category for adults (i.e. weekday or weekend). In Hamilton, senior rates are between 8% (Martin) and 18% (King's Forest) less expensive for senior golfers – which represent a narrowing of the price differentials compared to our finding in 2010. While golf services discounting approach is at the bottom of aforementioned range, it would seem to be consistent with the price positioning of the City's courses. The following chart illustrates the weekday and weekend senior rates charged by golf courses in the sample.

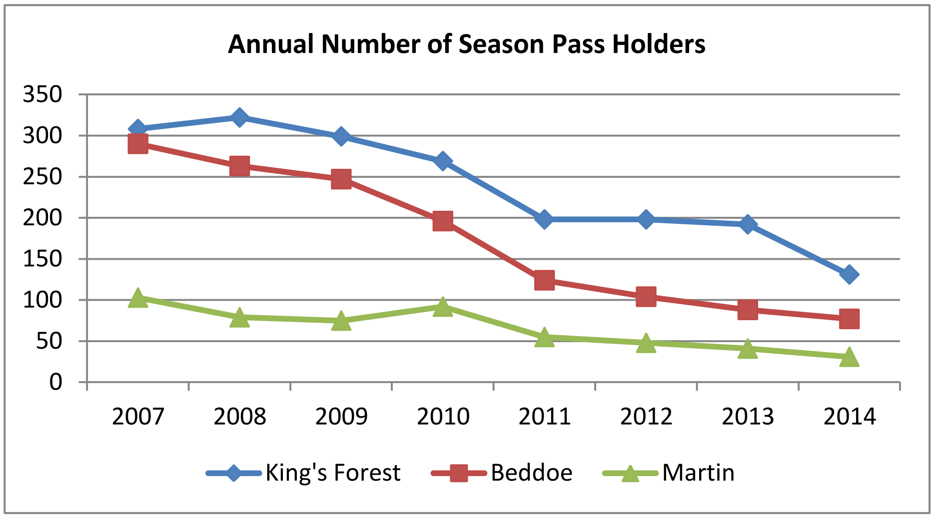


Consumer buying preferences and the extremely competitive nature of the gold environment coupled by the lingering effects of the world financial crisis have caused most golf course operators to competitively price their products and services. In fact, the published 18-hole rates at nearly half the courses included in this year's analysis are as much as 20% less than the 2010 published rates. Furthermore, facility operators are being much more liberal in their packaging of products and services to entice golfers to their courses. Nine 'n dine, discounted Mondays and half price cart fees are common themes advertised in golf journals, discount books or local newspapers. It is therefore advisable for Hamilton golf services to remain abreast of the pricing environment within its trade area and annually adjust golf fees accordingly.

Season Pass Holders

As mentioned earlier in this report, consumers are moving towards the more flexible pay-as-you-play relationship with golf facilities rather than committing to a membership or season pass at a single course. This trend would certainly seem to be having a negative impact on Hamilton's success in selling season passes to all three of its golf locations.

Between 2010 and the end of the 2014 season the total number of season pass holders to the City's three facilities slipped by 57% - falling from 558 to 239 memberships throughout the system. While the Beddoe (-64%) and Martin (-61%) courses lost the most significant number of pass holders, King's Forest also ended the period with less than half of its normal pass holder roster.



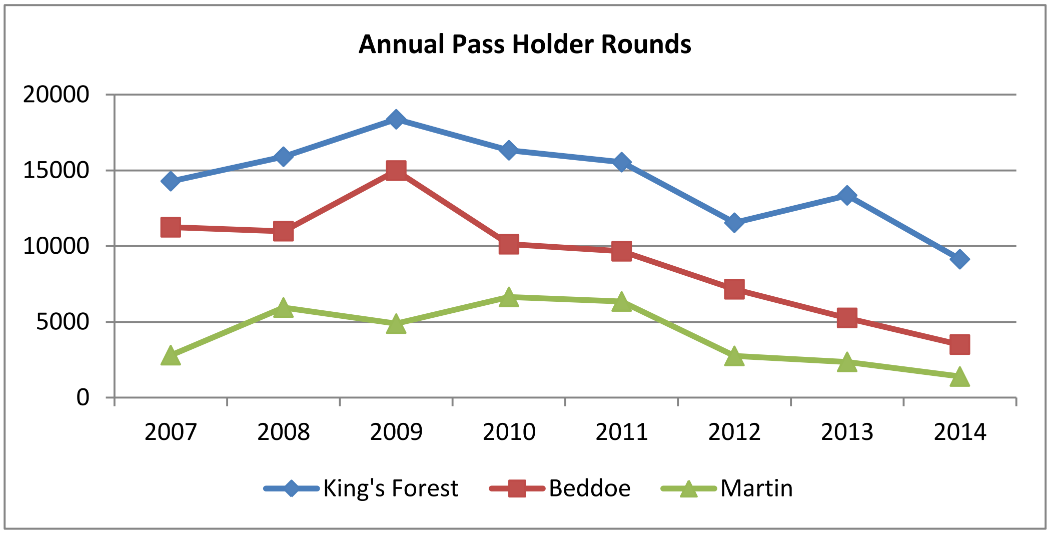
As was the case in many other leisure sectors, the financial crisis that closed out the last decade resulted in a great degree of labour uncertainty and corporate turbulence that negatively affected new membership sales and member retention in most club environments. In the golf business, even longstanding members began opting for short term relationships at selected courses or pay-as-you-play arrangements with different providers. It is therefore not surprising that the sharpest decline in the City's season pass sales occurred between 2010 and 2011.

Expectedly, season pass revenue was reduced in direct accordance with the number of passes sold – a decline from approximately $790,000 in 2007 to $340,000 in 2014. Interestingly, revenue generated per pass holder has climbed by a total of 26% throughout this period – starting at $1,130 per pass holder in 2007 and finishing at $1,423 per pass holder in 2014. Obviously, the City should direct its future marketing efforts at increasing the number of season pass holders to all three golf facilities.

PASS HOLDERS GOLF PROFILE

It is reasonable to expect an individual attracted to buy a season pass would be an avid or frequent golfer interested in reducing the cost per round by prepaying for unlimited golf. This certainly appears to be the case given the golf in profile of pass holders to the City's courses. While it is reasonable that the total number of rounds played by pass holders would decline in the general proportion to the number of pass holder sold, it is interesting that the trend line for the decline in play is not nearly as steep as the decline in pass holder sales. This is primarily due to the fact that pass holders played more rounds of golf per season between 2011 and 2014 than they played between 2007 and 2010.

In 2007, pass holders played an average of forty 18-hole rounds over the course of the season. In the next two years pass holders' playing profile increased to an average of 60 rounds per season representing an increase of more than 50% in annual rounds of golf per pass holder. While inclement weather caused a reduction in pass holder play during the 2010 season, annual rounds per pass holder has remained at, or above, 60 games per player over the past four seasons. Presumably, avid golfers will continue to be the primary target market for season pass sales and therefore marketing and promotional efforts should focus on events where golf

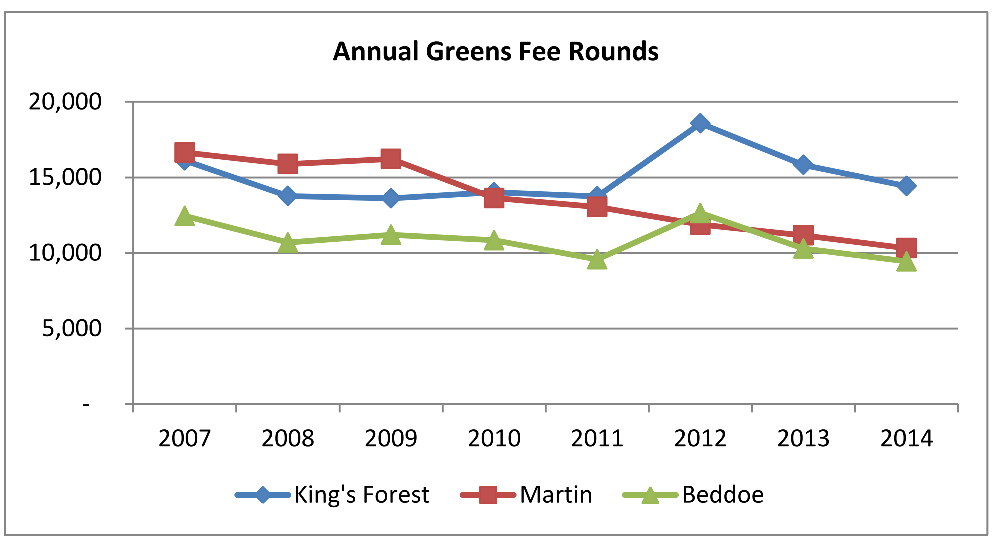


enthusiasts would congregate or in publications popular amongst this important target market– i.e. golf shows, trade magazines, travel and destination publications, etc.

Hamilton's golf services could also promote the fact that season passes are a very economical method of accessing three of the City's top golf facilities. Based upon the number of pass holders and pass revenue per year, each player paid between $20.00 and $24.00 per round between 2010 and 2014. This per game expenditure obviously represents very good value given the pay-as-you-play greens fee prices charged by golf courses in Hamilton's trade area.

Greens Fee Play

Current pressures stressing the golf sector have also negatively impacted a Hamilton's ability to attract greens fee play. Overall, the City sold 24% fewer greens fee rounds in 2014 than were sold in 2007. The King's Forest and Beddoe experienced an impressive bump in greens fee sales in 2012 (a rise of 35% and 32% respectively compared to 2011) although sales performances slipped yet again in the following two years.



The over-supply of courses in the local marketplace coupled with price sensitivity on the part of pay-as-you-play golfers and the aggressive marketing tactics employed by golf course operators in Hamilton's trade area will very likely produce headwinds that complicate the City's ability to sell an increased number of greens fee rounds in the years to come. It will therefore be critical that Hamilton's golf services staff execute sales, marketing, promotional and operating techniques to ensure that the City's courses are widely perceived as top quality, value based golf opportunities.

REVENUE YIELD OF GREENS FEE PLAY

"Rack rate" is a sector specific term referring to the published price for a pay-as-you-play round of golf. However, the actual revenue generated by each round of golf can be substantially different than the rack rate due to price discounting for less desirable tee times, the price packaging of various golf services, fee reduction arrangements to attract tournament rounds or the reduced price when wholesaling making tee times to web based discounters. The difference between rack rate and the revenue yield per round illustrate the level of discounting inherent with a particular golf operation.

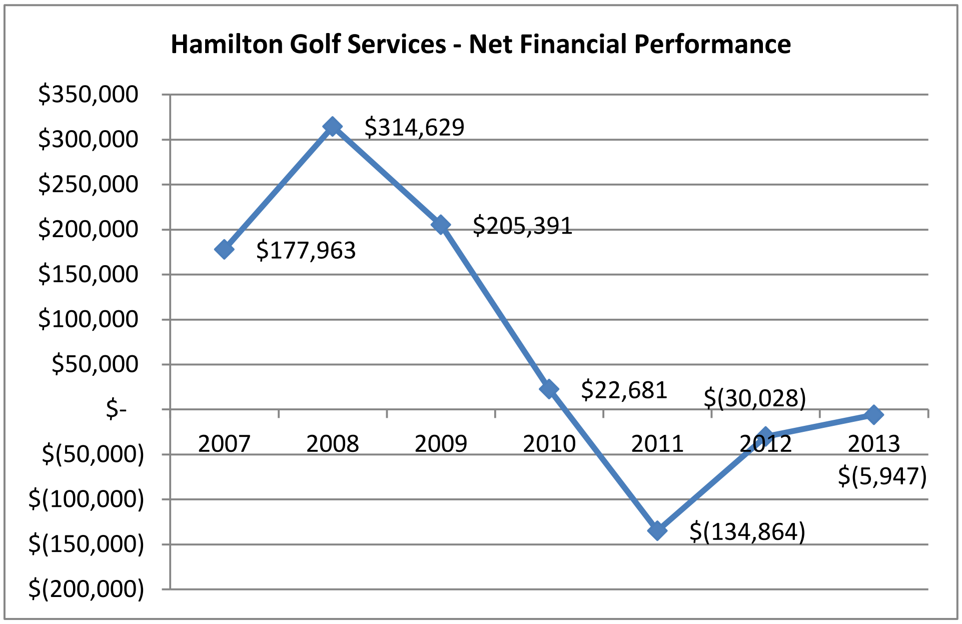
The following table presents a historical perspective of the revenue produced per round of golf at each of the City's three facilities. It is noteworthy that this revenue yield data represents only the golf income and not any other associated income such as cart rental revenue, food and beverage or pro shop sales, etc. However, the gap between the effective revenue yield and the rack rate at each course suggests a reasonable degree of discounting is currently practiced at the City's golf facilities. While pricing adjustments may be necessary to remain competitive in the marketplace, staff should explore opportunities to increase the yield per round to augment revenue streams without necessarily increasing the number of rounds sold.

Exhibit 5: Yield per Round Played

	2007	2008	2009	2010	2011	2012	2013	2014
King's Forest	$43.82	$43.87	$41.38	$41.66	$42.77	$37.97	$37.03	$38.10
Martin	$22.00	$22.41	$21.57	$23.58	$24.00	$23.27	$23.96	$24.14
Beddoe	$31.40	$31.13	$31.45	$32.75	$33.30	$30.02	$31.24	$32.28
Total	$32.37	$32.04	$30.84	$32.75	$33.54	$31.59	$31.52	$32.28

FINANCIAL PERFORMANCE

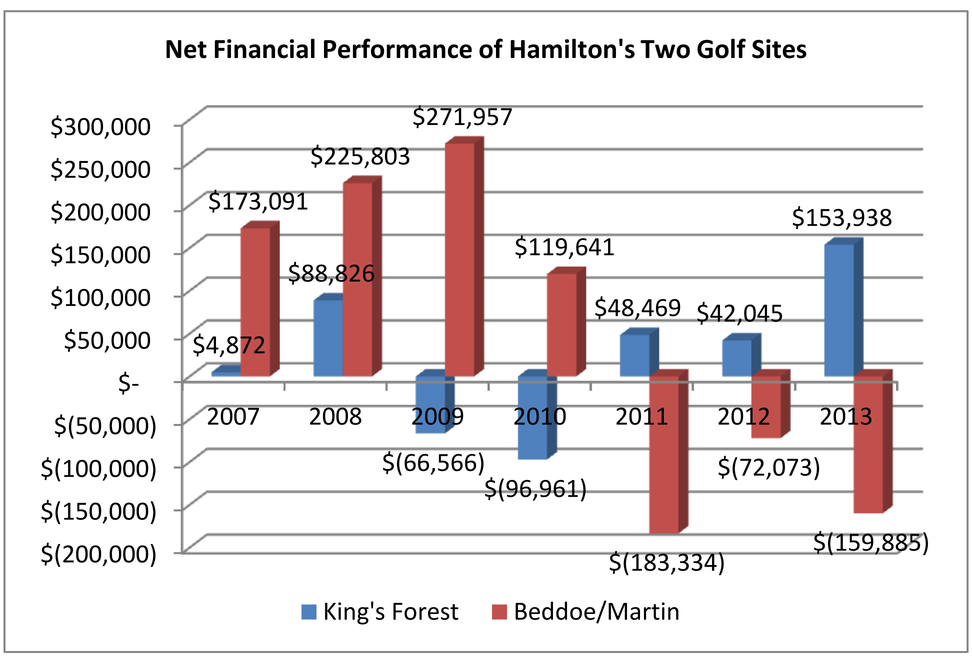
Since 2007, City staff have implemented elements of the original business plan with the intention of ensuring that Hamilton's golf services achieve and maintain financial self sustainability. As mentioned earlier in this report, golf revenue is not only to support the operations of the golf courses but also to fund re-investments in golf infrastructure (i.e. turf, bunkers, greens, clubhouses, maintenance buildings, etc.). And, improving the quality of golf experience through this re-investment is incredibly important given the extremely competitive environment within which golf services operate. As per the plan, annual net revenue is to be contributed to a capital reserve fund that would be employed to underwrite the cost of future facility maintenance or capital improvements.



Between 2007 and 2010, total net revenue produced by the City's two golf sites allowed for a total of $720,000 to be contributed to the golf reserve fund. Between 2011 and 2013 operating and financial pressures created by the economic crisis coupled with an increasingly competitive marketplace eroded net revenues to the point where total operating losses reduced the reserve account by more than $170,000.

The winter of 2013-14 was one of the most severe in memory. The ice storm of December 2013 plus excessively cold temperatures in the following three month damaged many golf courses in southern Ontario. The winter inflicted significant harm to the City's Chedoke facility. In particular, most of Chedoke's greens were seriously burned and a significant number of trees were badly injured. Kings Forest also experienced damage but to a lesser extent.

The necessary repairs were not only expensive, but also resulted in both facilities opening later than usual which impacted season pass and greens fee sales. For Chedoke, this occurred at the worst possible time as the course was already suffering from a decline in sales cause by the competitive forces discussed earlier in this report. The repair cost related to these issues as well as the downward revenue pressure caused by the weaker sales was



realized in the 2014 budget year.

The weather anomalies that negatively affected the 2014 financial results, makes it impractical to compare year over year net financial performance due to the fact that many of the occurrences (and related costs) were “one time events”.

As reported in the 2010 Golf Performance Analysis Study, staff enacted a series of operating cost containment initiatives in the first two years of implementing its business plan. These initiatives streamlined staff deployment strategies, improved operating efficiencies and took advantage of operating savings resulting from capital improvement projects (e.g. creating the retention ponds). More recently, golf services has initiated additional cost saving measures - such changes to the manner in which regular and emergency maintenance is performed on golf course equipment and fleet vehicles.

While golf services is committed to continuously improve its operating efficiencies, the number and extent of cost containment protocols that have been applied to both King’s Forest and Chedoke sites, we suggest that any significant financial improvements will be linked to revenue improvements rather than further cost cutting. In fact, it is not unreasonable to expect that additional expense reduction – especially in the area of payroll – would begin to drag down service levels thereby reducing the quality of the golf experience at the City’s courses. This could result in further slippage in season pass sales and greens fee play as golfers migrate to competing facilities offering higher quality golf course or better customer service.

A detailed review of the financial performance on a site by site basis reveals that the Chedoke courses (Martin and Beddoe) produced consistent positive net revenue between 2007 and 2010. Over the same four year period, King’s Forest financial performance was split between the profitability and operating deficits.

Since 2011, King’s Forest has produced positive net revenues while the Chedoke courses have collectively produced operating deficits. This performance represents an interesting reversal in roles in so much as King’s Forest is now outperforming the combined financial results of the Martin and the Beddoe courses to the extent that King’s Forest is responsible for golf service’s continuous financial improvement between 2011 and 2013. Essentially, the erosion in season pass sales and greens fee play at King’s Forests has been less dramatic over the past number of years than reductions in golf played at the Chedoke site.

RECAP OF RECOMMENDED STRATEGIC INITIATIVES

The 2010 Golf Performance Analysis Study provided a series of recommendations intended to improve the operating and financial performance of the City’s golf courses. Our examination of the golf environment as well as our more recent review of golf services progress implies that our previous advice continues to be valid. For reference, these recommendations include the following.

- Develop a marketing strategy to promote and sell season passes to golfers within the catchment area of Hamilton's golf courses.

- Develop a marketing strategy to promote and sell greens fee play to golfers within an hour drive time of Hamilton's golf courses.

- Develop a tournament strategy to market Hamilton's golf courses as host venues for a wide variety of organized events.

- Annually review the pass holder/greens fee play ratio and make adjustments that reflect an equitable balance between pass holders play and pay-as-you-go rounds played by the general public.

- Ensure that the annual tee time registration system is adjusted to reflect changes in the pass holder/greens fee play ratio. Additionally, continuously monitor the amount of play by each group of golfer to ensure that the round ratio thresholds are being maintained (please also see Tee Sheet Management recommendation in the Additional Considerations section below).

- Review the prices of season passes in view of the amount of golf played by pass holders. Increase prices to reflect Hamilton's golf course position in the local marketplace as well as appropriate cost recovery threshold.

ADDITIONAL CONSIDERATIONS

The following strategic operating suggestions are offered as enhancements to the specific marketing and sales tactics reiterated above.

> *Protect Hamilton Golf Service's Value Proposition* – as illustrated in the pricing analysis presented earlier in this report, the Chedoke courses are in the mid-range and King's Forest is near the top of the market in terms of their rack rate prices. These market positions are entirely appropriate given the quality of the courses, the variety of facilities and services available at each location, the first class standards of the support amenities and the level of customer service golfers receive at each course. While the above recommendations suggest that the City undertake a more robust effort to attract a higher number of season pass holders and greens fee players, marketing and sales tactics should not inadvertently erode the perceived value of the courses by offering overt discounts or deals that "cheapen" the course's value proposition in the eyes of potential golfers. Certainly pricing strategies should present an appealing and affordable offer but not at the expense of the City's golf service's position in the golf marketplace. This can be achieved by providing lower cost golf rounds within packages – such as tournament play, stay and play packages, etc. –

whereby a golf round's price reduction is bundled with other services and discounting becomes less obvious. This pricing strategy is utilized by other strategically wise golf operations – indeed many entities in the quality brand business - that place a very high regard on maintaining the perception brand quality.

Strive for Operational Self Sufficiency at both Golf Sites– as a result of a variety of economic and competitive factors cited in this report, Hamilton's golf services are currently producing financial results below their individual and collective potentials. Based upon our review of all circumstances that influence financial performance, we suggest that management strive to produce sufficient revenue from all sources to bring the courses at both the King's Forest and Chedoke sites to a revenue position equaling 2009 performances (approximately $1.76 M at Chedoke and $1.6 M at King's Forest) representing a revenue increase of approximately 20% above 2014 projections. Marketing, pricing and sales suggestions contained herein are offered as starting strategies to achieve these proposed targets and other tactics conceived by staff should augment these ideas. Our focus is on revenue production rather than significant cost containment strategies because expense reductions have already been implemented and any additional significant cost savings could begin to affect levels of service.

Tee Sheet Management – most successful golf facilities employ a structured, strategic and planned approach to managing the manner in which they deliver golf services. Effective tee sheet management is a very important method of ensuring the golf course and related facilities are utilized to their maximum efficiency. In implementing this type of strategic management approach, each fall, senior golf staff examine and analyze the tee sheets of the previous season looking for obvious trends in terms of use by time of day, day of week and week of the season. Observations should be compared to trends from previous years to establish use patterns and profiles. The analysis will reveal pockets of time that are most popular for greens fee golfers and time slots that are less appealing. This information should be used by management to determine times of days and days of the week that are the most appropriate to preserve for booking by individual greens fee golfers and time slots for which organized events and tournaments are more appropriate. Armed with this information, golf sales staff can strategically market tournament opportunities to potential corporate clients knowing that the event will complement greens fee activity rather than preventing it. Additionally, tournaments of various sizes can be fitted into periods based on the number of tee times available within a particularly soft greens fee sales slot. Furthermore, pricing practices and packaging arrangements can be planned and implemented in accordance with the information mined from the tee sheet management initiative. We understand that Hamilton's golf staff currently utilize a tee sheet management procedure in an attempt to maximize revenue yield per round. We encourage that this practice be systematized, standardized and advanced to a level that is as sophisticated as possible.

Create an Added Value Golf Experience - in the golf business, customer loyalty has traditionally been driven by four key factors: the enjoyment of the golf experience; overall course conditions; the value inherent with the golf experience; and the condition of the greens. Golf course operators report that in the past few years, the "value factor" is playing an increasingly important role in golfers' choice of venue. Given that value is judged by weighing price against products or services received, many operators have either held the line on price increases or are offering special packages which have the effect of reducing the golfer's cost per round. First class golf course operators are continuously striving to "delight" their customers through the delivery of top quality facilities and services that provide a "value added" experience compared to their competitors. These best in class performers cultivate positive relationships with each and every golfer so that they feel special, cared for and are the centre of the operator's attention. In an environment that is as competitive as the golf business today, the benefit of delivering a distinct value proposition (discussed previously) cannot be over stated. Golfers must be treated as though they are the single focus of the entire organization. The residual benefits are described simply – a happy and cared for golfer will become a repeat visitor who will generate additional referral business.

Capital Re-investment - as mentioned many times in this report, maintaining the value of the golfer's experience is paramount to attracting and retaining golfers. The quality of the experience will be determined by a combination of factors including the standards of the field of play (the golf course) and the support amenities (the clubhouse, practice facilities, etc.). Therefore, continuously upgrading facilities with capital improvements and ongoing repairs and maintenance is imperative to preserving a quality customer experience. The City works within a disciplined capital reserve process that allows for appropriate capital improvement and maintenance budgeting, which is prudent practice. This process should be continued and the courses should receive ongoing capital investments in accordance with the assets studies and funding that, as revenue improvements occur, should become increasingly available from the reserve account.

Future Opportunities

CONTEXT

As mentioned in the previous sections, the golf industry is currently immersed in a state of turbulence caused by a number of factors including shifting trends in golfer preferences, climate change affecting a business that is heavily dependent on weather conditions, an over-supply of golf courses and a reduction in the number of golf rounds available to golf course operators - particularly in Southern Ontario. We have reiterated previous recommendations that we believe will help Hamilton attract a more significant share of the golf market and added supplementary suggestions to strengthen Hamilton's golf services position in the local marketplace.

All evidence suggests that the golf sector will experience ongoing challenges for the foreseeable future. Consequently, we recommend that the City undertake an opportunities analysis to explore any potential changes to its existing physical and/or operating circumstance that might assist in alleviating some of the financial pressures associated with the delivery of golf services.

GOLF COURSE CAPACITY ANALYSIS

Golf facilities have a tangible capacity to accommodate play (the number of rounds that a course can reasonably handle on an annual basis). A facility's rounds capacity is calculated by considering daylight hours and length of season in combination with operating and policy factors to project the maximum number of 18-hole rounds at a particular venue. The following capacity calculation has been created for the golf courses in Hamilton.

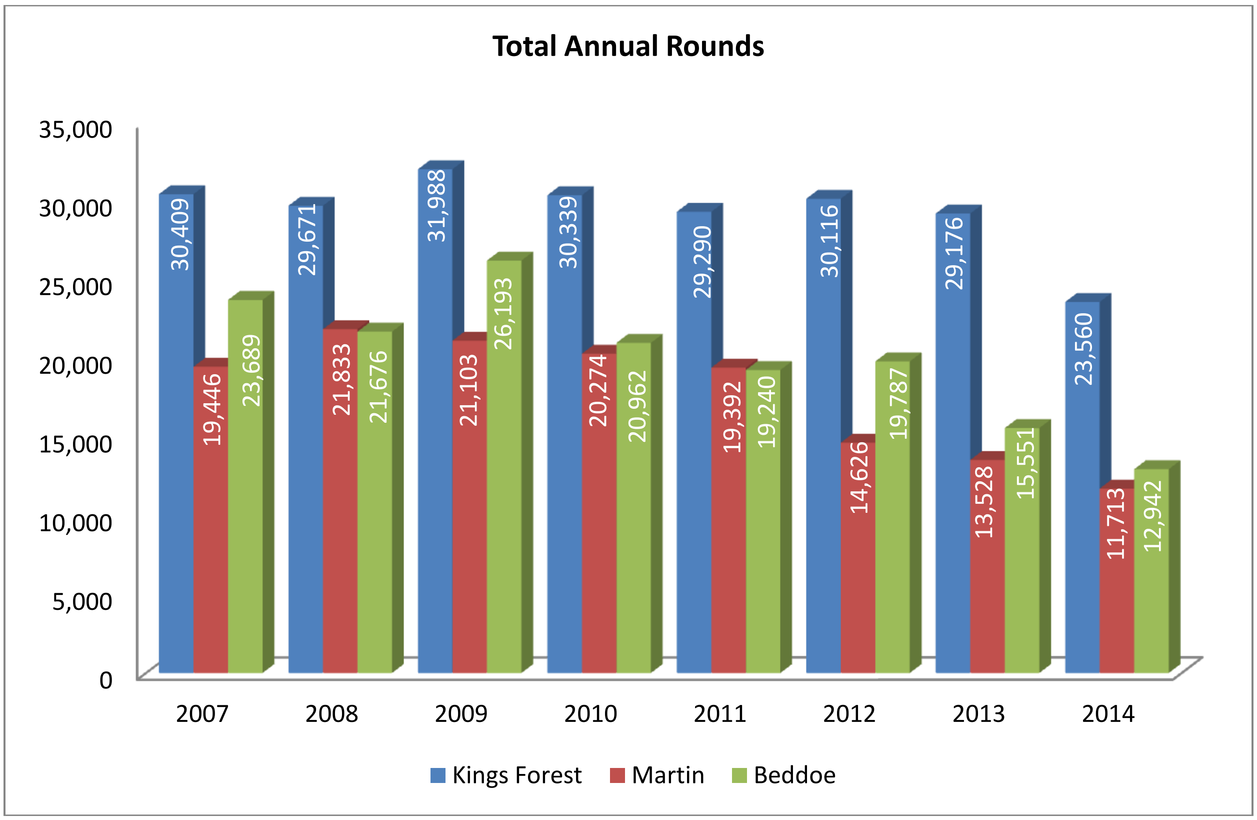
Exhibit 6: 18-hole Golf Course Capacity Analysis

Average Golf Season	April	May	June	July	Aug.	Sept.	Oct.
Total Days	30	31	30	31	31	30	31
Average Daylight Hours	14.25	15.5	16.5	15.5	15	13.5	12
Hours to start 18-hole tee times	9	10.25	11.25	10.25	9.75	8.25	6.75
Tee Time Interval (in minutes)	9	9	9	9	9	9	9
Total Tee Times per day	60	68	75	68	65	55	45
Max. 18-hole rounds per day	240	273	300	273	260	220	180
Max. 18-hole rounds per month	7,200	8,473	9,000	8,473	8,060	6,600	5,580
Normal Capacity (Industry Metric)	65%	65%	65%	65%	65%	65%	65%
Normal 18-hole Round Capacity	4,680	5,508	5,850	5,508	5,239	4,290	3,627

As illustrated in the above estimates, weather conditions and seasonality factors reduce total limit the number of golf rounds that a course can be expected to accommodate. In the Hamilton area, this metric is generally understood to be 65% - with start of the season and the number of rain days the two most significant limiting variables. While each course's utilization profile will differ – in accordance with the makeup of the golf clientele (members vs. pay-as-you-go players), the number and size of tournaments per season, historical relationship of groups of golfers with the facility (such as the customary morning seniors group that patronize many courses), etc. – the normal round capacity is usually quite predictable. Taking into account all of the factors mentioned above, each of Hamilton's 18-hole courses has a normal 18-hole round capacity of approximately 34,000 rounds.

HISTORICAL LEVELS OF PLAY

The number of annual rounds played at each of the City's 18-hole golf facilities has been in decline for the past half decade. With the exception of an increase in the number of greens fee rounds played at King's Forest in 2009 and again in 2012, the number of annual rounds in all other categories of play have dropped year to year.



While the number of rounds at King's Forest was below acceptable levels in 2014 (partly due to the weather damage related late opening), the volume of golf rounds played during the previous five years was within range of the King's Forest's normal capacity. We therefore expect that the implementation of the marketing, pricing and promotional recommendations presented in the earlier section of this report has the ability to increase the number of rounds to near capacity levels at this, the City's premium golf facility. While achievable, the task of reaching acceptable sales at the Chedoke facility would certainly be more challenging.

Exhibit 7: Historical Rounds Played vs. Course Capacity

	2007	2008	2009	2010	2011	2012	2013	2014
Chedoke % Capacity Utilized	63%	64%	70%	61%	57%	51%	43%	36%
Chedoke Annual Change	NA	1%	9%	-13%	-6%	-11%	-16%	-15%
King's Forest % Capacity Utilized	89%	87%	94%	89%	86%	89%	86%	69%
King's Forrest Annual Change	NA	-2%	8%	-5%	-3%	3%	-3%	-19%

POTENTIAL STRATEGIC DIRECTIONS

The purpose of the recommendations presented in this report is to frame the City's efforts to capture a larger portion of the available golf market – both seasons pass sales and greens fee play. We have strategically focused recommended improvement initiatives on revenue generation rather than cost containment because the City has already implemented expense controls and further cost reductions could negatively affect course condition or customer service – both of which would be counterproductive to improving golf's financial performance. To reach a satisfactory financial result, golf services will be required to sell a sufficient number of rounds while maintaining an acceptable revenue yield per round so that net income can return the levels sufficient to support annual contributions to the capital reserve account. We anticipate that this targeted outcome is very attainable at the King's Forest facility – an improvement of less than 15% over historical performances would be sufficient to achieve the desired result. While the targeted revenue improvements are also possible at the Chedoke facility, a more significant recovery in the sale of greens fee and season passes would be necessary – an upturn of more than 32% above 2013 revenue levels would be required to achieve to an acceptable level of financial sustainability.

A second strategic alternative would be to consider re-purposing a portion of the land at the Chedoke facility. This potential option could produce new revenue streams – through the sale and or lease of property – while lowering operating costs by reducing the footprint of a facility. The course capacity calculation presented above suggests that allocating a certain proportion of the existing Chedoke lands to another use would not limit the course's ability to accommodate sufficient rounds to meet the recommended revenue target. In fact, even if an entire 18 hole were removed from inventory, the remaining course footprint could handle more than double the number of rounds that occurred at Chedoke in 2013.

Certainly, this alternative must be tested against a variety of municipal policies and planning principles and a robust business case analysis must be developed for each option. In view of all of the available possibilities, we recommend that the City consider and investigate the reasonableness and feasibility of five potential options.

- Option One - Sell a portion of the Chedoke lands for a use acceptable to Council – preferably a use that is compatible with a golf facility adjacency.

- Option Two - Lease a portion of the Chedoke lands for a use acceptable to Council – preferably a use that is compatible with a golf facility adjacency.

- Option Three - Re-purpose a portion of the land to accommodate a golf practice facility.

- Option Four - Create a relationship with an outside partner for the operation of the catering and hospitality services.

- Option Five - Develop a partnership with the private sector (a P3) to attract private capital to the facility – either the entire operation or a defined portion such as the clubhouse.

To begin the process of interpreting the implications of each of the five potential options, the alternatives were tested against applicable strategic objectives that were endorsed in the City's 2012 – 2015 Strategic Plan. This assessment is a simple first step in identifying how potential options can contribute to the three strategic priorities that are believed to have the greatest impact on moving the City of Hamilton forward towards achieving its vision. An "X" appears under an option where it appears that the option would comply with or otherwise contribute to the objectives of the strategic priorities.

Strategic Priority #1 – A Prosperous & Healthy Community

Objectives	Option 1	Option 2	Option 3	Option 4	Option 5
Continue to grow the non-residential tax base.	X	X		X	X
Continue to prioritize capital infrastructure projects to support managed growth and optimize community benefit	X	X		X	X
Promote economic opportunities with a focus on Hamilton's downtown core, all downtown areas and waterfronts				X	X
Support the development and implementation of neighbourhood and City wide strategies that will improve the health and well-being of residents	X	X	X	X	X
Enhance Overall Sustainability (financial, economic, social and environmental)	X	X	X	X	X

Strategic Priority #2 – Valued & Sustainable Services

Objectives	Option 1	Option 2	Option 3	Option 4	Option 5
Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.	X	X	X	X	X
Improve the City's approach to engaging and informing citizens and stakeholders			X	X	
Enhance customer service satisfaction.			X	X	

Strategic Priority #3 – Leadership & Governance

Objectives	Option 1	Option 2	Option 3	Option 4	Option 5
Engage in a range of inter-governmental relations (IGR) work that will advance partnerships and projects that benefit the City of Hamilton.	X	X		X	X
Enhance opportunities for administrative and operational efficiencies	X	X		X	

As is evident from the foregoing, the options can make different types of contributions to the pursuit of the City's strategic priorities. Additional assessments, feasibility studies and business plans will be necessary to accurately predict the suitability of any of the options moving forward.